

ORIGINAL

Decision No. 43826

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
PACIFIC GAS AND ELECTRIC COMPANY, a )  
corporation, for an order of the )  
Public Utilities Commission approving )  
applicant's proposals for: (1) re- )  
classification of its entire plant and )  
property account as of January 1, 1949, )  
and (2) the disposition of the amounts )  
which will appear in Accounts 105 and )  
105.2 under said proposed reclassifica- )  
tion. )  
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Application  
No. 30823

Pacific Gas and Electric Company, by Robert H. Gerdes and R. W. DuVal; City of San Francisco, by Dion R. Holm, City Attorney, and Paul L. Beck, Chief Valuation and Rate Engineer, interested party; City of Oakland, by John W. Collier, City Attorney, and Loren W. East, Public Utilities Engineer, interested party.

O P I N I O N

By this application, Pacific Gas and Electric Company seeks an order of the Commission granting and conferring upon applicant all necessary permission or authority to (1) reclassify its entire plant and property account as of January 1, 1949, and (2) dispose of the amounts which under the reclassification will be recorded in Account 105--Electric Plant Acquisition Adjustments, and Account 105.2--Gas Plant Acquisition Adjustments.

The Commission by Decision No. 30269, dated October 25, 1937, as amended by Decision No. 30339, dated November 15, 1937, in Case No. 4230, adopted and prescribed, effective January 1, 1938, a

new uniform system of accounts for electrical corporations<sup>(1)</sup> subject to its jurisdiction. By Decision No. 42068, dated September 21, 1948, in Case No. 4458, the Commission adopted and prescribed, effective January 1, 1949, a new uniform system of accounts for gas corporations. Both systems of accounts contain provisions requiring each utility to reclassify its plant costs as of the effective date of said systems of accounts in accordance with the primary accounts prescribed therein, such reclassification to be made so as to show both the original cost<sup>(2)</sup> and the cost of the plant to the utility.

In the opinion in said Decision No. 30269, the Commission says:

"In prescribing the system of accounts referred to herein, the Commission does not commit itself to the approval or acceptance of any item set out in any account, for the purpose of fixing rates or in determining other matters before the Commission. The said system of accounts is designed to set out the facts in connection with the financing and operation of electric utilities and therefrom the Commission will determine, when engaged in fixing rates or passing upon other issues before it, just what consideration shall be given to the various items in the several accounts."

On January 16, 1940, applicant filed with the Commission a report showing, as of January 1, 1938, what it regarded as the original cost of its properties and those of San Joaquin Light and

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(1)

Under date of May 11, 1937, the Federal Power Commission prescribed, effective January 1, 1937, a uniform system of accounts for public utilities and licensees subject to the provisions of the Federal Power Act. Applicant holds licenses granted by the Federal Power Commission. The system of accounts prescribed by the Federal Power Commission and that prescribed by this Commission for electrical corporations are substantially the same.

(2)

Original cost as applied to electric and gas plant is in the systems of accounts defined as "the cost of such property to the person first devoting it to public service".

Power Corporation<sup>(3)</sup> and Midland Counties Public Service Corporation,<sup>(4)</sup> both of which corporations were then, through stock ownership, controlled by applicant.

Applicant filed a similar report with the Federal Power Commission.

Applicant in its report filed on January 16, 1940, summarizes the cost to it of its properties owned on December 31, 1937, and the original cost of such properties, including the properties of San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation, as follows:

	Cost to the Utility	(a) Original Cost
Pacific Gas and Electric Company	\$592,145,289.89	\$541,071,146.97
San Joaquin Light and Power Corporation	93,786,072.13	(b) 82,030,197.00
Midland Counties Public Service Corporation	8,125,105.07	(b) 7,252,406.00
Cost to Pacific Company of acquiring the properties of the San Joaquin and Midland Companies was \$8,140,487.02 less than the cost as recorded on their books	<u>*8,140,487.02</u>	
Total cost to Pacific Gas and Electric Co. and original cost of all properties acquired or constructed by it as of December 31, 1937, including properties of San Joaquin and Midland Companies	\$685,915,980.07	<u>\$630,353,749.97</u>

\*Denotes red figure.

(a) Term "Original Cost" covers Original Cost (estimated if not known) of Electric Plant Accounts 301 to 390, excluding cost of water rights acquired prior to the dates of the several inventories mentioned herein and miscellaneous intangible capital; and Historical or recorded cost of other plant.

(b) Original Cost based on June 30, 1931 inventories and appraisals.

(3)

The properties were transferred to applicant under authority granted by Decision No. 31354, dated October 13, 1938, in Application No. 22157, as amended by Decision No. 36081, dated December 29, 1942, and as further amended by Decision No. 37447, dated October 31, 1944.

(4)

The properties were transferred to applicant under the authority granted by Decision No. 31355, dated October 13, 1938, in Application No. 22156, as amended by Decision No. 31780, dated February 20, 1939.

The original cost as reported by applicant is \$55,562,230.10 less than the reported cost of the properties to applicant and to the San Joaquin and Midland Companies. The records of applicant and of its predecessor companies were examined by members of the staff of this Commission and of the Federal Power Commission. From time to time members of the staffs of the Commissions had conferences with representatives of applicant to discuss their respective differences, in the expectation of reaching an amicable solution and avoiding prolonged hearings and possible litigation. The final of such conferences was on June 22, 1949. The agreement reached at that conference was reduced to writing. Applicant's application now before the Commission is for authority to carry the agreement into effect. Attached to the application as Exhibit 3 is a copy of the agreement.

As shown in Exhibit 5, Statement H (revised), the original cost of applicant's properties as of December 31, 1948, was \$70,106,267.34 less than their cost as recorded on its books. Statement F of Exhibit 5 shows the original cost of applicant's properties as of January 1, 1949, distributed to the several plant and property accounts. By departments, the original cost of its properties and the plant acquisition adjustments are shown in Statement F as follows:

Electric department	\$ 730,531,264.74
Gas department	163,790,697.69
Water department, collection	6,730,942.38
Water department, pumping	1,400,500.86
Steam sales department	2,070,095.38
Common utility plant	<u>35,652,164.62</u>
Sub-total	940,175,665.67
Construction work in progress under G.M.'s	95,498,980.65
Construction work in progress under division construction	10,259,322.37
Electric plant held for future use	922,341.10
Utility plant acquisition adjustments	70,106,267.34
Gas plant acquisition adjustments	<u>(2,297.24)</u>
Copperopolis electric distribution system	2,000.00
Other physical properties	<u>5,964,041.55</u>
Total	<u>\$1,122,926,321.44</u>

Of the \$70,106,267.34 of utility plant acquisition adjustment, applicant proposes to dispose of \$54,573,021.33 at this time as follows:

Transfer to preliminary survey and investigation charges		\$ 104,460.28
Charge to depreciation reserves		12,578,562.46
Electric plant	\$5,846,677.34	
Gas plant	6,671,266.78	
Water plant	15,900.34	
Heating plant	34,199.00	
Other physical property	4,519.00	
Contributions in aid of construction		(903,091.69)
Charge reserve for amortization of plant acquisition adjustments		20,873,101.07
Charge to surplus		<u>21,919,989.21</u>
<b>Total</b>		<b><u>\$54,573,021.33</u></b>

Applicant further proposes to retain \$15,530,948.77 (balance of \$15,533,246.01 in plant acquisition adjustment less \$2,297.24 credit) in the plant acquisition adjustment account and amortize it by charges to earnings over a period of 15 years, or less, beginning January 1, 1950. It is of record that if applicant's earnings permit it to do so, it will accelerate the amortization. The amortization charges should be made to Account 537--Miscellaneous Amortization.

This is an accounting and not a rate proceeding. The purpose of the numerous conferences, including that of June 22, 1949, among representatives of applicant, of the Federal Power Commission and of this Commission was to arrive at the original cost of applicant's properties, and to adjust its plant accounts and bring them in line with the systems of accounts prescribed by this Commission. The record shows that the amount presently on applicant's books as the cost of its properties was built up, in part, with amounts representing purchase prices paid by applicant for properties of other corporations, with plant accounts of predecessors, and with

valuation figures prepared on both the historical cost basis and on the reproduction cost basis, in some cases depreciated and in others undepreciated. Some of the records of applicant and its predecessor companies were destroyed by the 1906 earthquake and fire, while some of the available records were incomplete. In determining the original cost of some of applicant's properties, it was necessary to use estimates of original cost. Although applicant's representatives expressed some disagreement with some of the detail of the staffs' proposals, applicant has concurred with the basic figures in Exhibit 3 and asks authority to reclassify its plant accounts accordingly.

The approval of the application as now requested will bring to an end a long and costly study of applicant's records and will result in an orderly presentation of applicant's plant accounts in lieu of the present chaotic and unsatisfactory condition. As thus set up, such accounts will be stated for all departments at original cost and for the first time in applicant's history will be segregated to primary accounts, with lump-sum undistributed items being eliminated and items not considered as original cost being removed from the books. They will more accurately reveal the nature of applicant's investment in its utility plant and will make original cost data readily available.

The Commission is of the opinion that the proposed reclassification of accounts should be authorized. The action taken herein is not to be understood as indicating in any way that the amount included in Account 100.5, Electric Plant Acquisition Adjustments, will be recognized in a rate proceeding as part of the rate base or its amortization as an operating expense.

#### O R D E R

The Commission having considered the evidence submitted at the hearing had on this application and it being of the opinion that

the application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company shall record, on or before March 31, 1950, the cost of its properties as of January 1, 1949, as set forth in Statement F (subject to minor adjustments) on file in this application, which statement is summarized as follows:

Electric department	\$ 730,531,264.74
Gas department	163,790,697.69
Water department, collection	6,730,942.38
Water department, pumping	1,400,500.86
Steam sales department	2,070,095.38
Common utility plant	<u>35,652,164.62</u>
Sub-total	940,175,665.67
Construction work in progress under G.M.'s	95,498,980.65
Construction work in progress under division construction	10,259,322.37
Electric plant held for future use	922,341.10
Utility plant acquisition adjustments	70,106,267.34
Gas plant acquisition adjustments	<u>(2,297.24)</u>
Copperopolis electric distribution system	2,000.00
Other physical properties	<u>5,964,041.55</u>
Total	<u>\$1,122,926,321.44</u>

2. Pacific Gas and Electric Company, on or before March 31, 1950, shall dispose of \$54,573,021.33 included in the above utility plant acquisition adjustments as follows:

Transfer to preliminary survey and investigation charges	\$ 104,460.28
Charge to depreciation reserves	12,578,562.46
Electric plant	\$5,846,677.34
Gas plant	6,677,266.78
Water plant	15,900.34
Heating plant	34,199.00
Other physical property	4,519.00
Contributions in aid of construction	<u>(903,091.69)</u>
Charge reserve for amortization of plant acquisition adjustments	20,873,101.07
Charge to surplus (subject to minor adjustments)	<u>21,919,989.21</u>
Total	<u>\$54,573,021.33</u>

3. Pacific Gas and Electric Company shall amortize, over a period of fifteen (15) years, or less, beginning January 1, 1950, by charges to Account 537--Miscellaneous Amortization, \$15,530,948.77 remaining in said plant acquisition adjustment accounts.

4. On or before April 30, 1950, Pacific Gas and Electric Company shall file with the Commission a statement showing the manner in which it has complied with the provisions of paragraph 1 and paragraph 2 of this order.

5. The authority herein granted is effective upon the date hereof.

Dated at San Francisco, California, this 14 day

*14 February*  
of ~~January~~ 1950.

*R. J. Anderson*  
*Justus J. Gaenen*  
*Robert F. Howell*  
*Harold P. Hill*  
*Herbert H. Lott*  
Commissioners